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Massachusetts Housing Investment Corporation

Update

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Summary of Recent Activity

MHIC has made considerable progress under each of its programs during the first three quarters of its Fiscal Year 1993. Attached are tables (see page 3) which summarize activities under MHIC's programs. To summarize, these tables show that:

✎ Under MHIC's Loan Program, over $51 million has been raised from fifteen participating banks. Of that amount, $25 million (49%) has been committed to twenty-seven project loans. (See page 3.)

✎ Under MHIC's Equity Program, over $57 million has been committed from seven participating banks. $51.2 million has already been invested in seventeen projects, and another $19 million in eight projects is in process. Together, the equity investments completed or under way total $70.2 million; of that amount, $51.3 million has come from MHIC member banks. This represents 73% of the commitments from MHIC member banks. (See page 3.)

✎ In addition, MHIC has an active pipeline, with another 25 projects in pre-commitment stages.

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Flurry of Project Closings

During the last month or so, seven projects have closed their financing through MHIC.

✎ *326 Shawmut Avenue* is an 11-unit single room occupancy (SRO) project in Boston which is receiving a $301,500 construction loan from MHIC. (See page 5.)

✎ *Lucerne Gardens* is a 45-unit cooperative project in Boston which is receiving an equity investment of $3,490,000 through MHIC. (See page 4.)

✎ *Beaver Apartments* is a 26-unit rental project in Worcester receiving an equity investment of $675,000 through MHIC. (See page 4.)

✎ *123 Crawford Street* is a 17-unit single room occupancy (SRO) project in Boston which is receiving a $441,000 construction loan from MHIC. (See page 6.)

✎ *Alexander Magnolia* is a 38-unit cooperative project in Boston which is receiving a $4,516,500 equity investment and a $1,000,000 construction loan through MHIC. (See page 4.)

✎ *Prang Estates* is a 33-unit rental project in Boston which is receiving a $2,365,000 equity investment and a $1,199,400 construction loan through MHIC. (See page 5.)

✎ *Father Walter Martin Cooperative* is a 34-unit project in Boston which is receiving a $4,132,500 equity investment and a $1,600,000 construction loan through MHIC. (See page 5.)

Equity Program: Need to Expand

MHIC's Equity Program has been very effective at providing attractive yields to project sponsors (typically at least 20% higher than other sources), and the program has been well utilized. In fact the program has been so well utilized that the initial equity commitments from MHIC's member banks have been exhausted, and now the demand far exceeds the supply. As a result, MHIC is seeking to expand participation in its tax credit equity program. At the same time, MHIC has been reviewing the structure of the equity program, to improve its efficiency and responsiveness, and its appeal to a broader range of investors. MHIC expects to develop a restructured equity program in the coming months, and to solicit commitments (and recommitments) from investors on that basis. In addition, MHIC is planning a major corporate marketing effort with the National Equity Fund in the coming months.

Loan Program: Added Capacity and Goal of Simplification

In order to originate additional project loans, to improve processing time and responsiveness, and to coordinate with other lenders, MHIC recognized the need to add staff capacity. We recently hired a new senior loan officer, Michelle Dowd, who started on February 16. To make it easier to coordinate construction and permanent financing, MHIC is developing standard inter-agency agreements and documents to be used with permanent lenders, such as MHP, MHFA, and the Land Bank. MHIC is also putting in place controls to sharply limit legal costs. And we are working with other lenders and agencies to develop a major revision to the "One Stop" application, which should make it simpler, more usable, and more accessible to project sponsors.

Permanent Financing Update

MHIC had made a commitment to develop and implement, on a pilot basis, a program of permanent financing for affordable rental housing. Over the past year, MHIC has been working with the Massachusetts Association of CDC's and others to formulate an overall program for permanent financing. Most of the effort over the last nine months has focused on a program developed by the Local Initiatives Managed Assets Corporation (LIMAC) in conjunction with the Federal National Mortgage Assistance Corporation (Freddie Mac).

Under this program, MHIC would originate mortgages, which LIMAC would credit enhance. Freddie Mac would then swap these mortgages for Freddie Mac securities. The State Treasurer had committed to purchase Freddie Mac securities for the State Pension Fund. Working with its member banks, MHIC was prepared to raise the capital necessary to support the risk exposure under the LIMAC program, and MHIC had been working on the necessary documentation to become a Freddie Mac approved "seller/servicer."

This initiative, unfortunately, recently suffered a major setback when LIMAC decided, in early March, to suspend their initiative with Freddie Mac. Jack Weir, the President of LIMAC, has resigned, and LIMAC is now assessing whether or not it will proceed with the Freddie Mac program. MHIC is now pursuing other options for this initiative, such as FNMA and the Federal Home Loan Bank. We are also working to structure our financing programs to take full advantage of funds being made available to the Massachusetts Housing Partnership. Due to this setback and other priorities – particularly with respect to the restructuring of the equity program – MHIC is working with various constituencies to reassess its strategy.

MHIC Project Investments

MHIC has committed over $74 million in financing to 39 projects under its Loan and Equity programs.
(Note: All figures are in $1,000's.)

Loan Program:	
Banks Commitments	$51,500
Capitalized	$51,250
Committed/Invested	$25,026
Equity Program:	
Member Bank Commitments	$57,734
Other Investors	$9,457
Total Available	$67,191
Projects Closed	$51,265
Projects In Process	$19,008
Total Closed and In Process	$70,273

Specific projects receiving construction loan commitments are listed in the following table.

Loan Program	*Amount*
604 Massachusetts Avenue, Boston	$380
Ridgewood Village, Chicopee	$1,177
Dorchester Bay Homes, Boston	$730
Jacob's Place, Dorchester	$952
Stony Brook Gardens, Boston	$1,900
Parkview SRO, Boston	$1,195
Hyde Square Co-op, Boston	$1,200
800 Main Street, Worcester	$175
North Hill Homes, Westborough	$1,700
Lopes Buildable Lots, Boston	$298
Haley House SRO, Boston*	$488
Ridgewood Village III, Chicopee*	$1,700
Rollstone Ledge Coop, Fitchburg*	$450
Ryder Woods, Sandwich*	$595
St. Charles Apartments, Pittsfield*	$730
Tavares, Buildable Lots, Boston*	$288
123 Crawford Street SRO, Boston	$441
Alexander Magnolia Coop, Boston	$1,000
326 Shawmut Ave. SRO, Boston	$302
Prang Estates, Roxbury	$1,199
Humboldt Ave. Apts., Roxbury	$350
Daly House SRO, Roxbury	$450
Fr. Walter Martin, Boston	$1,600
120 Beacon Street, Somerville	$2,828
Cushing Place, Boston	$800
The Kendall, Chicopee	$540
Tapley School, Springfield	$1,558
Total Committed/Invested	$25,026

Of the 27 loans approved by MHIC over the last two and one-half years, six projects (marked with an asterisk in the table above) are now not expected to close.

MHIC's Equity Investment Program has closed 18 investments totaling over $51 million, with another $19 million in eight projects in process.

Equity Investments Closed :	
Langham Court, Boston	$4,275
VBC, Boston	$3,360
Roxbury Corners, Boston	$3,575
Brooks School, Boston	$2,730
1734 Washington St., Boston	$1,098
BHP II, Boston	$2,000
Waterford Place, Boston	$2,000
Parmelee Court, Boston	$2,800
South City, Holyoke	$3,125
Stony Brook Gardens, Boston	$4,942
Hyde Square Coop, Boston	$3,430
Cortes Street, Boston	$1,300
Parkview SRO, Boston	$1,451
Lucerne Gardens, Boston	$3,490
Beaver Apts., Worcester	$675
Prang Estates, Roxbury	$2,365
Alexander Magnolia Coop, Boston	$4,517
Fr. Walter Martin Coop, Boston	$4,133
Total Closed	$51,265
Equity Investments Under Review:	
Pomeroy Lane, Amherst	$1,436
Grinnell Mansion, New Bedford	$890
Oak Terrace, Chinatown	$6,220
Building 104, Boston	$5,330
Depot Crossing, Wareham	$850
Tapley School, Springfield	$2,360
Kendall SRO, Chicopee	$752
Humboldt Ave. Apts., Roxbury	$1,170
Total in Process	$19,008
Total Closed/In Process	$70,273

Beaver Apartments, Worcester

The Beaver Apartments housing development, a 26-unit affordable rental project in the Main South area of Worcester, closed its equity financing on March 4. The project is being developed by Main South Community Development Corporation, a non-profit corporation which has developed and is currently managing a total of 56 units of affordable housing, as well as five commercial units, in the area. The housing will remain affordable for a minimum of 30 years.

The equity investment for Beaver Apartments totals $675,000 and is being provided by: Shawmut Bank, $236,250; Fleet Bank of Massachusetts, $236,250; BayBank, $135,000; and People's Bank of Worcester, $67,500.

In addition to the financing provided by MHIC, the project received a $200,000 HOME loan from the City of Worcester. Construction financing in the amount of $800,000 is being provided by Flagship Bank, and $325,000 is being provided by the Community Development Finance Corporation. Permanent first mortgage financing in the amount of $800,000 is being provided by the Government Land Bank.

Alexander Magnolia, Boston

The Alexander Magnolia Cooperative, a 38-unit development in the Uphams Corner neighborhood of Roxbury, closed on $5,516,500 in financing from MHIC on April 1. The financing package consists of a $4,516,500 tax credit equity investment and a $1,000,000 construction loan.

The project is being developed by Dorchester Bay Economic Development Corporation, a non-profit community development corporation which has rehabilitated or constructed 244 housing units for low and moderate income residents, including rental and for-sale housing. This is the third project as part of the Boston Coop Initiative, under the sponsorship of the City of Boston and the Metropolitan Boston Housing Partnership. The units will remain affordable for a minimum of 30 years.

The equity investment for Alexander Magnolia Co-op is being provided by five investors: State Street Bank and Trust Company, $1,545,000; Boston Safe Deposit and Trust Company, $948,500; Fleet Bank of Massachusetts, $873,000; BayBank, $750,000; and John Hancock Mutual Life Insurance Company, $400,000.

In addition to the financing provided by MHIC, the City of Boston provided Linkage financing of $1,193,656, a HOME/LEND loan of $636,709, and a $200,000 land loan. The project has no first mortgage debt.

Lucerne Gardens, Boston

Lucerne Gardens, a 45-unit affordable rental project in the Franklin Field South neighborhood of Dorchester, closed its financing on February 17, with the major portion of the financing coming from $3,490,000 in equity from MHIC. The project is being developed by Winston Lucerne Partnership, a minority-owned development team. The units will remain affordable for a minimum of 30 years.

The equity investment for Lucerne Gardens is being provided by: Shawmut Bank, $949,000; Boston Safe Deposit and Trust Company, $1,096,000; BayBank, $747,000; and Fleet Bank of Massachusetts, $698,000.

In addition to the financing provided by MHIC, the project received $1,200,000 of Linkage financing and $742,445 in HOME funds from the City of Boston. The Federal Home Loan Bank provided an Affordable Housing Program grant of $460,000 through the First Trade Union Bank. The first mortgage permanent financing in the amount of $1,050,000 will be provided by Massachusetts Housing Finance Agency.

Fr. Walter J. Martin Coop, Boston

The Father Walter J. Martin Cooperative, a 34-unit development in the St. Vincent's neighborhood of South Boston, closed on $5,732,500 in financing from MHIC on April 7. The financing package consists of a $4,132,500 tax credit equity investment and a $1,600,000 construction loan.

The project is being developed by South Boston Community Housing, a non-profit community development corporation. This is the fourth project as part of the Boston Coop Initiative, under the sponsorship of the City of Boston and the Metropolitan Boston Housing Partnership. The units will remain affordable for a minimum of 30 years.

The equity investment for Father Walter J. Martin Co-op was provided by five investors: State Street Bank and Trust Company, $1,418,000; Boston Safe Deposit and Trust Company, $901,000; Fleet Bank of Massachusetts, $645,250; Shawmut Bank, $768,250; and John Hancock Mutual Life Insurance Company, $400,000.

In addition to the financing provided by MHIC, the City of Boston provided Linkage financing of $1,055,194, a HOME loan of $255,755, and a $200,000 land loan. The Federal Home Loan Bank provided an Affordable Housing Program grant of $500,000 through Shawmut Bank.

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Prang Estates, Boston

Prang Estates, a 33-unit housing development near John Eliot Square in Roxbury, closed on $3,564,368 in financing from MHIC on April 2. The financing package consists of a $2,365,000 tax credit equity investment and a $1,199,368 construction loan.

The project consists of the rehabilitation of the historic Louis Prang home and a former nursing home. The developer is Cruz Development Corporation, an experienced and well-respected minority developer, owner, manager, and contractor in the low income housing field. The units will remain affordable for a minimum of 30 years.

The equity investment for Prang Estates was provided by BayBank, $480,500; Boston Safe Deposit and Trust Company, $702,000; Shawmut Bank, $585,000; and State Street Bank and Trust Company, $597,500.

In addition to the financing provided by MHIC, the project received permanent financing in the amount of $745,312 from Massachusetts Housing Finance Agency.

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326 Shawmut Avenue, Boston

326 Shawmut Avenue, an 11-unit SRO project in the South End of Boston, closed on a $301,500 construction loan from MHIC on January 12, 1993.

The project is being developed by Inquilinos Boricus En Accion (IBA), a non-profit community development corporation with housing development experience. IBA was founded in 1968 and owns and operates 533 units of housing, a 6 story office building and provides a variety of social service programs to the South End of Boston.

326 Shawmut Avenue is the eleventh construction loan closed by MHIC since June of 1991. In addition to the financing provided by MHIC, the City of Boston's Public Facilities Department is providing a LEND loan of $272,165, EOCD is providing a HIF Grant of $185,000, and the permanent financing is being provided by the Massachusetts Housing Partnership.

123 Crawford Street, Boston

123 Crawford Street, a 17-unit SRO project in the Roxbury section of Boston, closed on a $441,000 construction loan from MHIC on February 8, 1993.

The project is being developed by the Boston Citywide Land Trust which has developed 398 units of housing since its inception in 1985.

123 Crawford Street is the 15th construction loan closed by MHIC since June of 1991. In addition to the financing provided by MHIC, the City of Boston's Public Facilities Department is providing a LEND loan of $131,300 and the permanent financing is being provided by the Massachusetts Housing Partnership.

New "One Stop" Application

MHIC staff is now completing work on a revamped version of the "One Stop" Housing Application. The new version addresses many of the concerns about earlier versions, and should be far easier for project applicants to use. The new version is now being tested to ensure its accuracy and ease of use, and should be available within the next month or so.

Mark Your Calendar

Upcoming events include the following:

- Father Walter Martin Cooperative Groundbreaking: May 1
- MHP/EOCD Conference on HOME Program: May 7
- "One-Stop" Application Seminar: May 17
- Parkview SRO Dedication: June 1993
- EOCD Tax Credit/HOME Round, Applications Due: June 1993

News Notes

Federal tax exemption granted to MHIC: On February 8, 1993, MHIC was pleased to receive notification from the Internal Revenue Service that it has been granted 501(c)(3) status. This status is retroactive to MHIC's formation in July 1990, and is permanent.

MHIC Chairman publishes article on Community Lending in *Boston Globe*: On February 16, 1993, the *Boston Globe* published an article entitled "Federal Boost Needed in Housing" by David A. Spina. Mr. Spina's article discusses MHIC as a model of a "community development bank," noting that MHIC is well positioned for community development bank initiatives in Massachusetts. Anyone who would like a copy of this article may contact MHIC.

New MHIC Board Member: Earlier this year, MHIC elected Walter Mercer, Executive Vice President of Fleet Bank, to its Board of Directors. At Fleet Bank, Mr. Mercer is in charge of the Real Estate Division in Massachusetts.

New Senior Loan Officer: MHIC recently hired a new Senior Loan Officer, Michelle Dowd, who began work in mid-February. Ms. Dowd most recently worked at the Office of the Comptroller of the Currency, and previously at Boston Five Cents Savings Bank, Bank of Boston, and State Street Bank.

MHIC to be featured at American Banker's Conference: Joe Flatley has been invited to speak at the American Bankers Association's 1993 National Community Development Lending Conference to be held May 19-21, in Reston, Virginia. Mr. Flatley will make a presentation on MHIC's experience as a model of a bank consortium designed to meet community lending goals.

Summary of Member Bank Commitments and Amounts Invested To Date

The sixteen member banks participating in MHIC, along with other corporate investors, have collectively committed over $108 million to finance affordable housing developments. The current status of these commitments is outlined in the following table. (Note: All figures are in $1,000's.)

Summary by Bank	*Construction Loan Program*		*Equity Investment Program*			*Overall Bank Total*	
	Capitolized	*Committed/ Invested*	*Committed*	*Closed*	*In Process*	*Total Commitment*	*Invested/ In Process*
Shawmut Bank	10,000	4,883	10,250	6,384	2,842	20,250	14,109
Fleet Bank	10,000	4,883	10,000	6,973	2,392	20,000	14,248
State Street Bank	4,600	2,247	10,750	8,797	410	15,350	11,454
BayBank	6,000	2,930	10,000	6,209	2,517	16,000	11,656
Boston Safe Deposit	0	0	15,500	11,266	3,530	15,500	14,796
Bank of Boston	15,000	7,325	0	0	0	15,000	7,325
The Mass. Company	1,500	733	0	0	0	1,500	733
Wainwright Bank	1,000	488	0	0	0	1,000	488
Workingmens Coop Bank	1,000	488	0	0	0	1,000	488
Springfield Inst. for Svgs.	250	122	500	0	0	750	122
Sterling Bank	500	244	0	0	0	500	244
Neworld Bank	500	244	0	0	0	500	244
Bank of Commerce	250	122	179	179	0	429	301
Atlantic Bank	250	122	0	0	0	250	122
Stoneham Savings	250	122	0	0	0	250	122
Boston Private Bank	150	73	0	0	0	150	73
Other Banks and Corps.	0	0	9,458	9,636	7,317	9,458	16,953
Total	**51,250**	**25,026**	**66,637**	**49,444**	**19,008**	**117,887**	**93,478**

We Need to Simplify Affordable Housing Finance System

(Condensed from an article by Joe Flatley recently publishied in Banker & Tradesman)

Financing any kind of housing – even your own home – can be complex. Financing the development of affordable housing has never been simple, but the process has become intolerably complicated, and it is now an obstacle to meeting important community needs. Clearly, the process needs to be simplified.

Why is this financing so complicated? Much of the complexity is due to the fact that affordable housing projects typically depend on financing from several distinct sources of financing. All of these sources have their own particular requirements, procedures, and, of course, their own lawyers. As a result, it can take literally years to put all the pieces together.

Project sponsors must make the most of available resources, and so they often devise creative (read: complex) financing schemes. Furthermore, since so many sources must be satisfied, project sponsors are inclined to develop projects with ambitious goals, around which the sponsors can muster necessary support.

There is one bright sign in the current environment: the depressed real estate market presents some opportunities to acquire housing at an attractive price, and to rehabilitate it as affordable housing. But these opportunities require an ability to move quickly. Unfortunately, the current financing system, with its complexity and lack of predictability, does not allow for a quick response.

Simplification Needed *(continued):*

The impact of this complexity is overwhelming and fundamental. It drives up costs and extends the time in which projects can be completed. The financing process itself becomes the focus of those involved, all of whose time and energy would be better focused on developing the housing. Perhaps most importantly, the nature of the financing process is significantly limiting affordable housing development and preservation.

The overall system must be made simpler, more accessible, more predictable, and more timely. How can this be done? Here are some suggestions.

1. The various affordable housing lenders should provide straightforward, timely answers on financing, and should simplify and streamline the closing process. Clearly, lenders shoulder much of the responsibility for making the process work, and can do so through a number of actions: (a) a simpler, coordinated loan application; (b) consistent, predictable underwriting assumptions; (c) common design standards; (d) a coordinated approach to appraisals; (e) simultaneous project review; and (f) standard legal documents. Many of these improvements are already underway. The point is that project sponsors need and deserve timely responses to project proposals if they are to be able to respond to opportunities in this market. Once financing commitments are made, the closing process should be predictable and efficient.

2. Public funding agencies should make their process more accessible and predictable. Since public funding agencies frequently bear the brunt of the financial burden, they have a major stake in seeing that the process is efficient, and that it supports projects that have lower overall costs. Some of the problems of the past have been due to federal action (or inaction). With the prospect of the permanent extension of the tax credit, and a stable HOME program (and a HUD interested in helping to implement it), this should improve dramatically. Public agencies should be willing to give priority status and quick decisions to projects which meet pre-determined criteria in terms of cost and required public subsidy.

3. Simplify the process of raising tax credit equity. A standardized, efficient structure for raising tax credit equity will greatly enhance project sponsors ability to utilize the Low Income Housing Tax Credit, one of the few federal programs still available. Broader participation by corporate investors is also needed if we are to take full advantage of this critical resource.

4. Develop more of a "cookie-cutter" approach to housing finance. Standardization is the key to efficiency and predictability. This means standardized documents, consistent financing terms, standard inter-agency and inter-creditor agreements, and "off-the-shelf" financing packages that do not have to be negotiated on a deal-by-deal basis.

5. Sponsors should identify projects based on feasibility and availability of financing. In the past, project sponsors first identified worthwhile projects, and then worked (frequently for many years) to assemble the many layers of necessary financing. While some projects will still demand this approach, for many other projects, feasibility must drive selection. In today's market, sponsors should be looking for a good buy – the right housing at the right price. They also should be prepared to walk away from projects that don't fit the profile of projects likely to be financed.

Under the leadership of the State's Executive Office of Communities and Development (EOCD) along with various housing lenders, there is a major effort now underway to implement many of these ideas.

Simplifying the affordable housing finance system will not be easy. With standardization comes loss of flexibility. Each player will not be able to dictate independent terms and procedures. But there is broad consensus that the system needs to be overhauled, and if done right, everyone will benefit. Shame on us all if we don't rise to the challenge.